



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., November 26, 2002. The following members were present:

Jody B. Olson
Dennis L. Johnson
Susan K. Simmons
Pamela I. Ahrens
J. Kirk Sullivan

The electronic projection of materials and documents discussed in the meeting was handled by Carol Peterson. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon
Bill Palumbo
Drew Black
Cody Barney
Brian McGrath
Dennis Fitzpatrick
Mike Boren
Chris Growney
Brent Nye
Matt Freeman
Robert Schmidt

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co
DB Fitzpatrick & Co
DB Fitzpatrick & Co
Clearwater Advisors
Clearwater Advisors
Boise School District
LSO-BPA
Milliman USA

Geoff Bridges	Milliman USA
Charlie Brown	REAI
Doug Dorn	R.V. Kuhns & Assoc.
Maria Barrett	Office of the Governor
Ann Heilman	DHR
Bob Oberholzer	DHR
Teresa Lema	Boise City
Dpna Vantrease	IPEA
Jim Coleman	PERC Retired Teachers
Jane Buser	BSU
Richelle Sugiyama	PERSI
Judy Aitken	PERSI
John R. Doner	PERSI
Susan Shaw	PERSI
Gay Lynn Bath	PERSI
Becky Reeb	PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Simmons and seconded by Trustee Johnson, the Board unanimously approved the minutes of the October 22, 2002, regular meeting of the Retirement Board as submitted.

PORTFOLIO

Monthly Portfolio Update Mr. Maynard discussed his investment report dated November 25, which he had updated from the one previously furnished to the Board. In the report, Mr. Maynard noted the following:

Since the last Board meeting, the fund has advanced 2.2%. Relatively benign (but not exciting) earnings reports, a 50 basis point rate cut by the Feds, and general stability in consumer spending helped to firm the market. On the other hand, still weak economic indicators, generally pessimistic profit forecasts by corporate executives, and the prospects for war in Iraq continue to keep a lid on any sustained market exuberance.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing as expected vs. their respective benchmarks. The portfolio as a whole continues to exhibit its primarily defensive character that it developed late last year.

This means that if the market turns around quickly, our relative performance will lag for a while. The recent rise in the US equity market was led by large cap growth stocks, which has meant that our US equity performance has suffered a bit.

Mr. Maynard's report stated the current value of the fund as of November 25, 2002 was \$6,107,675,560. The fiscal year-to-date return percentage is negative 3.3% and the month-to-date return was a positive 3.3%. He reviewed his report showing cumulative returns up some from the last Board meeting.

The PERSI portfolio has been in the same cycle for a year and a half. When optimism comes back, we are ready for a growth phase. Since October 6 of this year, the markets have risen about 20%, fluctuating as consumer spending rises and falls. The PERSI fund is defensively positioned so that we do not quickly react to sharp rises or downturns in the market. When it rises moderately, we do well. Mr. Maynard reviewed the performance of each of the managers. The allocation is where we want it to be so he does not plan to rebalance this month.

In response to a question from Trustee Johnson, Mr. Maynard explained that when comparing PERSI to peer funds, the fact that we have international and global managers can make comparison difficult. We rely on our global managers to pick the countries and the stocks in those countries which may include international or domestic investments. The economy in Germany is depressed and much of Europe is still lagging, waiting for the U.S. to be robust and import their products. He said nothing in the current market numbers provide an obvious indication that the market volatility is over.

401(k) Performance Report: Mr. Maynard said the report by Mercer which had previously been furnished to the Trustees, showed no remarkable events during the quarter. The managers appear to be operating within normal range. The only oddity in the numbers is the Mellon International Index, and it is behind because it is a small account and cash flows have a major impact on their numbers. Stocks are doing what they should. He said whether the market goes up or down depends on the Christmas buying season numbers.

Quarterly TUCS Report: Consultant Doug Dorn reviewed the overall fund performance for the quarter, relative to the TUCS universe of funds. Reviewing how the PERSI fund has performed compared to other similar trusts, he said diversification played a definitely positive role for PERSI. He

also reviewed charts showing the risk v. total return of public funds over the past seven years.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Brian McGrath continued his optimism saying he expects interest rates to rise and predicted some chance of inflation over the next couple of years, but strong economic growth. Dennis Fitzpatrick agreed, saying stocks are cheap relative to bonds and they have a potential for growth. Rod MacKinnon is optimistic for equities and thinks earnings will continue to be better than expected. Representatives of Clearwater Advisors believe inflation is a risk. They continue their focus on fixed income and don't think interest rates will climb significantly. Bill Palumbo said historically, at the bottom of a recession cycle, there are always signs of deflation in an industrial economy.

Rate and COLA Discussion and Decision: The Trustees continued the discussion of various scenarios for meeting the statutorily required 25-year amortization of the unfunded liability. Actuary Robert Schmidt presented several scenarios that would phase in the rate increase rather than increase it all at once. The Trustees must meet their fiduciary responsibility to keep the fund whole. At the same time, they explored various ways to smooth the impact on employer budgets. Trustee Sullivan said fiduciary responsibility to members of the plan is important and must be kept on the top burner. He wants the plan to be whole as soon as possible. Trustee Simmons asked about the impact on city and county budgets. Mr. Winkle had attended their annual conventions and discussed the impending rate increase with them. He told the Board the cities and counties understand the need and are ready to respond. Mr. Sullivan said some of the expectations of investment returns in the suggested scenarios were unrealistic. Responding to a question from the Board, Mr. Winkle said if investment returns are high and further rate increases are not necessary, or if further increases are necessary, the issue can be revisited.

Chairman Olson opened the discussion to constituent representatives who were present. Ann Heilman, Director of the Division of Human Resources, said in this tight budget year, every dollar will be precious. She said a year to look at the whole compensation package would be appreciated. The state must balance where the compensation dollars are going and perhaps go back to the drawing board to determine if we have a system we can no longer afford. Employees have no raises and health costs are increasing. Steve Purvis of City of Boise echoed Ms. Heilman's plea, saying more time to prepare for the increase could minimize the impact on the employers and employees.

By motion duly made by Trustee Johnson and seconded by Trustee Ahrens, the Board adopted Scenario #2 as the phased in contribution rate increase schedule for the next several years. Scenario # 2 proposed that the total increase of 3% be phased in with 1% increases as of 7/1/04, 7/1/05 and 7/1/06. Trustee Simmons voted affirmatively. Trustee Sullivan abstained.

Trustee Simmons expressed a concern that staff communicate the entire three-year impact of this increase to the Legislature very quickly. She said it is critical that they understand the Board has chosen this phased in scenario to assist in budget balancing. However, all phases of the rate increase will be necessary to meet the statutory 25-year requirement. Scenario #2 invokes six months of one of the statutorily allowed grace periods.

Mr. Johnson said he does not support a discretionary COLA this year for the retirees, as to do so would mean additional contribution rate increases for employers and active employees. While the Trustees are sympathetic to retirees who have seen buying power decline, they will not approve the discretionary portion of the COLA this year. Chairman Olson said he is proud that over the last 15 years we have awarded COLAs when funds allowed and even provided retro-COLAs. He pledged to continue providing for retiree cost-of-living adjustments as long as he serves on the Board.

Trustee Sullivan was excused at 10 a.m. due to a prior commitment.

LEGAL:

Appointment of Hearing Officers The Board had previously received a memorandum dated November 18, 2002 regarding the need to appoint a hearing officer to conduct a contested case hearing. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board appointed Dean Parish to conduct a contested case hearing on denial of disability retirement Case No. CC02-06 and to issue a recommended decision in the matter.

Protocol for Appointment of Hearing Officers for Disability Appeals:
Because of the volume of disability appeals and the desire to have a uniform process for reviewing them, staff proposed a modified protocol for appointing hearing officers for disability appeals only. All non-disability appeals will continue to be presented to the Board under the current protocol. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board authorized the Executive Director to appoint a hearing officer in all disability appeals to conduct a contested case hearing and to issue a recommended decision. The Board will be notified in writing of all appeals filed since the previous Board meeting.

FISCAL:

Expense Reports: Financial Officer James Monroe reviewed the Administrative and Portfolio expense reports for the month ended October, 2002, which had previously been furnished to the Board. There were no unusual expenditures during the month.

Quarterly Financial Statements: Senior Accountant Rhonda Yadon reviewed the unaudited financial statements for the quarter ended September 30, 2002. The Sick Leave report now is included in these reports as in our annual report. The funds are held by State Street in indexed funds, 60% equity and 40% bonds. Chairman Olson asked how the Sick Leave Fund worked. Mr. Winkle said that when members retire, a percentage of their unused sick leave hours can be converted to pay medical insurance premiums. Ms. Yadon asked Trustees to contact her if they wish format changes to the report. Combining the DC plan information had caused delays in completion of the report. Ms. Yadon's goal is to have the information to the Board along with the other meeting materials.

Audit Adoption: Trustee Simmons introduced Mr. Lou Henry of Deloitte and Touche. Larry Bird has made the audit presentation to the Board for several years. To comply with new regulations, this duty has been rotated to Mr. Henry this year. Trustee Simmons said Ms. Yadon and Mr. Monroe had provided the Management Discussion and Analysis report in accordance with new GASB 34,37 & 38. Page 3 highlights, in layman's terms, the details of the report. She said Mr. Henry had indicated it is the best management report he has seen. By motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the Board accepted the Independent Auditors Report of the Financial Statements and Supplemental Information for the year ended June 30, 2002.

EXECUTIVE DIRECTOR

Final FRF Valuation: Answering a question from the October meeting, Actuary Robert Schmidt told the Board that the FRF plan has 81 active members. Mr. Winkle noted that after 25 years of service an FRF member's retirement is capped at 65% of salary. Even so, there are currently 25 members who are choosing not to retire but to remain in their positions. Another 50 people will reach that decision point very soon. We had expected these members to retire and the active member numbers to diminish, but this is not the case. With the contribution rate increase, we will need to see if the FRF rate needs to be increased. In response to a question from the Chair, Mr. Winkle said after all FRF members are retired, the funding will come from the state fire insurance premium tax and PERSI firefighter members. As part of the merger agreement, FRF employers make

a larger contribution on their PERSI firefighters even though those members receive the PERSI plan benefit. By motion duly made by Trustee Simmons, and seconded by Trustee Johnson, the Board unanimously approved the FRF actuarial valuation as presented.

Status Update: Executive Director Winkle reviewed the summary of PERSI projects report that had previously been provided to the Board. Eight vendors have expressed interest in receiving copies of the Request for Proposals for a full replication audit of our actuarial review. We expect to have a final report ready in March, 2003.

Each year the Regular Interest Rate and Reinstatement Interest Rate are established according to PERSI Rules 07.100 and 07.102. The *Regular Interest Rate* is the interest rate used to credit interest to member accounts in the Base Plan. It is established by the greater of the PERSI net return for the previous fiscal year or the quarterly average of 13 week T-Bills for the previous fiscal year. The *Reinstatement Interest* is applied to amounts owed to PERSI such as repayment of separations benefits or delinquent contributions from employees. It is determined by the three year average of the prime rate plus 1%. The actual rates that will be effective January 1, 2003 are *Regular Interest rate of 1.9%* and *Reinstatement Interest rate of 8.0%*. Because the process is in Rule no action was required by the Board.

The RFP for a survey of PERSI members is currently available for responders. We will hire a consultant and bring the survey back to the Board before it is actually sent to the members. Mr. Winkle said he has made presentations to Twin Falls County and answered questions about membership in PERSI. There is currently no entry cost for them to join, but contribution costs will be higher than what they are currently paying.

Trustee Ahrens thanked Mr. Winkle for working with her during the past months answering questions and keeping her informed on the contribution rate issue.

FUTURE BOARD MEETINGS

Tuesday, December 17, 2002, 8:30 a.m., Boise - PERSI office

Acknowledging that Trustees Ahrens and Johnson will not be able to attend a June 17, 2003 Board meeting, by motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the Board set the following dates for regular meetings of the Retirement Board in 2003:

Tuesday, January 28, 2003 8:30 a.m., Boise - PERSI office
Tuesday, February 25, 2003, 8:30 a.m., Boise - PERSI office
Tuesday, March 18, 2003, 8:30 a.m., Boise - PERSI office
Tuesday, April 22, 2003, 8:30 a.m., Boise - PERSI office
Tuesday, May 20, 2003, 8:30 a.m., Boise - PERSI office
*Tuesday, June 17, 2003, 8:30 a.m., Boise - PERSI office - Tentative
Tuesday, July 22, 2003, 9:30 a.m., Pocatello, Idaho
Tuesday, August 26, 2003, 8:30 a.m., Boise - PERSI office
Tuesday, September 30, 2003, 8:30 a.m., Boise - PERSI office
Tuesday, October 21, 2003, 8:30 a.m., Boise - PERSI office
Tuesday, November 18, 2003, 8:30 a.m., Boise - PERSI office
Tuesday, December 16, 2003, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 10:26 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director